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JOHN F. MUNGER  
MARK E. CHADWICK \*  
MICHAEL S. GREEN  
KATHLEEN DELANEY WINGER  
EVELYN PATRICK RICK \*\*  
LAURA P. CHIASSON

\* Also Admitted in Colorado

\*\* Also Admitted in Washington State

MICHAEL M. RACY (NON-LAWYER)  
GOVERNMENT RELATIONS DIRECTOR  
DIRECT LINE: (520) 906-4646

LINDA WELTER COHEN, APR (NON-LAWYER)  
MEREDITH LEYVA (NON-LAWYER)  
PUBLIC RELATIONS CONSULTANTS

**MUNGER CHADWICK, P.L.C.**

ATTORNEYS AT LAW  
A PROFESSIONAL LIMITED LIABILITY COMPANY  
NATIONAL BANK PLAZA  
333 NORTH WILMOT, SUITE 300  
TUCSON, ARIZONA 85711  
(520) 721-1900  
FAX (520) 747-1550  
MungerChadwick.com

LAWRENCE V. ROBERTSON, JR.  
ADMITTED TO PRACTICE IN:  
ARIZONA, COLORADO, MONTANA,  
NEVADA, TEXAS, WYOMING,  
DISTRICT OF COLUMBIA

**OF COUNSEL**

LIZÁRRAGA, ROBLES, TAPIA Y CABRERA S.C.  
HERMOSILLO, SONORA, MEXICO  
(LICENSED SOLELY IN MEXICO)

**TUBAC APPOINTMENT OFFICE**

2247 East Frontage Road, #1  
P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

September 23, 2004

Colleen Ryan, Supervisor  
Document Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Re: In the matter of Arizona Public Service Company  
Docket No. E-01345A-04-0437  
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Dear Ms. Ryan:

Enclosed for filing in the above-captioned proceeding are the original and thirteen (13) copies of prepared testimony on behalf of Southwestern Power Group II, LLC, Bowie Power Station, L.L.C (Tom Wray), and Mesquite Power LLC (William Engelbrecht) . Also enclosed are two additional copies of each testimony to be conformed and returned in the self-addressed stamped envelope we have provided for your convenience.

Please let me know if you have any questions, and thank you for your assistance.

Sincerely,

Lawrence V. Robertson, Jr.

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enclosures

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**TESTIMONY OF TOM WRAY  
ON BEHALF OF  
SOUTHWESTERN POWER GROUP II, LLC  
AND  
BOWIE POWER STATION, LLC**


**DOCKET NO. E-01345A-04-0437**

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Arizona Corporation Commission

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Q.1 Please state your name and business address.

A.1 My name is Tom Wray. My business address is: 4350 E. Camelback Rd., Phoenix, Arizona.

Q.2 On whose behalf are you appearing in this proceeding?

A.2 I am appearing on behalf of Southwestern Power Group II, LLC ("SWPG") and Bowie Power Station, L.L.C. ("Bowie"). I am General Manager of SWPG. SWPG and Bowie have participated throughout the proceeding, both as members of the Arizona Competitive Power Alliance ("Alliance"), and as an individual intervenor.

Q.3 Did SWPG/ Bowie participate in the settlement negotiations which have resulted in the proposed Settlement Agreement which is currently pending before the Commission?

A.3 Yes. We were actively involved throughout those negotiations.

Q.4 Do SWPG/ Bowie support Commission approval and adoption of the provisions of the Settlement Agreement, and the various regulatory actions by the Commission which the Settlement Agreement contemplates?

A.4 Yes, we do.

Q.5 What are the reasons for your support?

A.5 Greg Patterson's testimony on behalf of the Alliance provides a general discussion of the reasons why SWPG/ Bowie believe that the proposed Settlement Agreement is both in the public interest, and in the interest of Arizona's independent power producer or merchant generator community.

SWPG/ Bowie have been authorized to site and construct a 1,000 MW natural gas-fired, combined cycle electric generating station near Bowie, Arizona. Our current plans are to place the first power block into commercial operation in late 2007 or early 2008. A particular benefit for SWPG/ Bowie is the clarity and predictability that the Settlement Agreement provides with regard to future procurements of power by Arizona Public Service Company ("APS"), commencing with the RFP for 1,000 MW of power beginning in 2005. While that RFP may or may not offer SWPG/Bowie a possible market opportunity for some of the output from the Bowie plant, we believe that the proposed Settlement Agreement provisions governing APS' future (or post-2005) procurements of power provide a clarity and predictability that was not readily apparent following the Commission's issuance of its Track B decision, and its conduct of the initial Track B solicitation.

1  
2 In addition, the conditions and procedure set forth in the proposed Settlement Agreement  
3 which would govern any "self-build" activities by APS until 2015 are also very important  
4 to independent power producers, such as SWPG/Bowie, who were attracted to the  
5 prospective competitive wholesale electric market in Arizona before the Commission's  
6 issuance of its Track A and Track B decisions. Those decisions arguably had the effect  
7 of reducing or freezing the size of that competitive market which otherwise might have  
8 existed under R14-2-1606(B) and R14-2-1615(A) prior to the issuance of the Track A  
9 and Track B decisions. The "self-build" provisions of the proposed Settlement  
10 Agreement, in our opinion, restore a measure of that opportunity for growth of the  
11 competitive wholesale market that had previously existed, with a resulting atmosphere of  
12 stability for the merchant generator community in Arizona and the competition it seeks to  
13 provide. At the same time, the proposed "self-build" conditions and procedure reserve to  
14 the Commission the discretion to expressly authorize APS to self-build prior to 2015 as to  
15 a particular demonstrated need, when the competitive market has not been responsive to  
16 its needs, with a view towards providing for that end result which is in the best interest of  
17 APS' ratepayers.

18 Q.6 Do SWPG/ Bowie believe that the proposed Settlement Agreement is beneficial from the  
19 perspective of the other parties to this proceeding?

20 A.6 Obviously that is a conclusion for those parties to reach as to their respective interests, or  
21 the interests of those for whom they speak, and to express themselves accordingly.  
22 However, it is worth noting that of the approximately 30 parties who participated in the  
23 settlement negotiations, 25 have signed the proposed Settlement Agreement, 4 have  
24 expressed no opposition, and only 1 is opposed.

25 Q.7 Does that complete your testimony?

26 A.7 Yes, it does.  
27  
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**TESTIMONY OF WILLIAM ENGELBRECHT**

**ON BEHALF OF**

**MESQUITE POWER, LLC**

**Docket No. E-01345A-04-0437**

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1 Q1 Please state your name and job title.

2 A1 My name is William Engelbrecht, and I am a Vice President of Mesquite Power, LLC.

3  
4 Q2 On whose behalf are you testifying in this proceeding?

5 A2 I am testifying on behalf of Mesquite Power, LLC ("Mesquite Power").

6 Q3 Please describe Mesquite Power's interest and participation in this proceeding.

7 A3 Mesquite Power is the owner and operator of the Mesquite Power Generation Station  
8 ("Mesquite"), which consists of two (2) 625 MW combined cycle units located west of  
9 Phoenix, Arizona at the Palo Verde hub. The first Mesquite unit went into commercial  
10 operation in June, 2003 and the second unit in November, 2003. Mesquite is a merchant  
11 electric generation facility constructed to serve the wholesale markets in Arizona and  
12 surrounding states, and is interconnected to the Arizona bulk power transmission system  
13 at the Hassayampa Switchyard. Mesquite regularly makes sales of wholesale electric  
14 power to purchasers in Arizona, Nevada and California, and has made occasional sales to  
15 customers in New Mexico and Texas. Mesquite Power and its parent company, Sempra  
16 Energy Resources, are wholly-owned subsidiaries of Sempra Energy. Sempra Energy  
17 Resources is also an active member of the Arizona Competitive Power Alliance  
18 ("ACPA").

19 Mesquite Power has participated in this proceeding as a member of the ACPA and as an  
20 itnervenor in its own name. Through the ACPA, Mesquite Power has sponsored  
21 testimony, participated in procedural conferences, and was an active participant in the  
22 lengthy series of settlement discussions that resulted in the proposed Settlement  
23 Agreement.

1 Q4 Does Mesquite Power support the Settlement Agreement as presented to the  
2 Commission?

3 A4 Yes, it does.

4  
5 Q5 Do you believe that the Settlement Agreement is in the public interest? If so, why?

6 A5 The Settlement is in the public interest because it preserves, to the greatest extent possible  
7 given the circumstances of Arizona Public Service Company ("APS") and in the State of  
8 Arizona in general, opportunities for Arizona ratepayers to obtain the benefits that accrue  
9 from competitive markets for electricity generation. While allowing APS to acquire and  
10 add to its rate base the generating units currently owned by Pinnacle West Energy, the  
11 Settlement still preserves the commitment of this Commission to the development of  
12 competitive markets for electricity, and provides future opportunities for merchant  
13 generators such as ourselves to compete for the opportunity to provide power to Arizona  
14 ratepayers. We believe that competition will provide customers with the lowest priced,  
15 most reliable energy – a better deal than the traditional model that exposes ratepayers to  
16 the risk of higher costs associated with planning, building and operating a utility system.

17 Q6 How does the Settlement Agreement preserve the benefits of competition for customers?

18 A6 By imposing a requirement that APS cannot seek to construct new generating facilities of  
19 its own prior to January 1, 2015 except under limited circumstances, including Findings  
20 by this Commission that such new facilities are needed, the Settlement allows a "cooling  
21 off" period from the recent upheaval in western electricity markets that was exacerbated  
22 by the crisis in California. The self-build limitation coupled with projected load growth  
23 in Arizona and the requirement that APS undertake competitive a solicitation for at least  
24 1,000 MW of power by the end of 2005 provides opportunities for the 4,500 plus MW of  
25 merchant generation that has been built in Arizona in recent years by ACPA members to  
26 compete for business in the local market. Moreover, the combination of these two  
27 features provides merchant generators with a measure of predictability for future power  
28 procurement by APS that was not readily apparent following the initial "Track B"  
solicitation, and in the face of continued litigation between APS, its parent company and  
the Commission.

1  
2 At the same time, renewable energy resources, demand side reduction, distributed  
3 generation and other resources will have the opportunity to compete as well. Thus, the  
4 full range of competitive options and alternatives are available for APS to meet its  
5 customers needs in the most effective way, while keeping costs to a minimum.

6  
7 Q7 Are there any other reasons why the Settlement Agreement is in the public interest and  
8 should be adopted?

9 A7 In any case as large and complex as a utility general rate case, there are a great number of  
10 issues to resolve, and to achieve broad support on a proposed Settlement, such as  
11 happened in this case, is a significant achievement. In our mind, compromise generally  
12 outweighs the risks and potential costs of protracted litigation and, in this case, achieved a  
13 result that, represents a fair balance and resolution of the numerous issues.

14 Q8 Does this conclude your testimony?

15 A8 Yes.  
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